In This Building Block:

- Calculate your current financial status
- Determine how much money you need to save to reach your retirement goal

HOW MUCH MONEY YOU WILL NEED

When you're planning for retirement, the hardest question to answer is: *How much will I need to save for retirement?* That depends on the lifestyle you expect, what may happen between now and then, and how soon you plan to retire. It also depends on how much money you've already set aside specifically for retirement.

This chapter presents some guidelines on how much you should be saving. Remember that this information provides only a ballpark figure. These guidelines are not designed to take the place of tax advice or financial planning. What this information can do is start you thinking about where you are now and how to get where you want to be at retirement.

Three main sources of retirement income

Financial planners say you'll need about 70% of what you're making before you retire to maintain your standard of living in retirement. For example, someone about to retire who is earning $35,000 would need 70% of that, or $24,500 per year, in retirement. That $24,500 mainly comes from three sources:

- Social Security retirement benefits
- your pension
- your personal savings

Today, for most retirees receiving an average income, Social Security and pension benefits provide **less than half of that 70%**. The rest must come from personal savings and investments, such as the money you accumulate through the Deferred Compensation Plan. Before you can determine how much you should be investing in the Plan, determine where you stand now.

Where am I now?

How much have you put away for your future? Once you've added up your current retirement assets, you'll have a better idea of how much you should be adding to that now and in the years ahead.

Your current retirement assets

Here's a list of common assets you'll want to include. Remember, this list should include all of the assets you own that are set aside specifically for retirement:

Your Deferred Compensation Plan	**$**	_____
Balances of all IRA accounts	**+**	_____
Other retirement plan accounts	**+**	_____
Stocks, bonds, other securities	**+**	_____
Investment property	**+**	_____
TOTAL	**= $**	_____

Where do I want to go?

As with anything else in life, if you know where you want to go and when you expect to get there, you're more likely to reach your goal. How much of your pay do you need to contribute to reach that goal—financial security in retirement?

The chart on the next page is based on many assumptions. Of these, perhaps the most important is that you will want to continue your current lifestyle in retirement. While some current expenses, like clothing, may be lower once you have retired, you may decide to travel more or spend more of your income on entertainment. Only you can know for sure; that's why the savings rates recommended on the chart are only a rough guide.

If you think your living expenses in retirement will increase dramatically, you should be prepared to set aside more money now. Longer life expectancy, a higher cost of living, and the uncertainty of future medical expenses suggest that you should set aside as much as you can afford.

How much of your pay to save for retirement

The table below makes deciding how much you need to save easier. To figure out what your contribution should be to meet your retirement goals, see the table below.

1. Figure out how much you've already saved compared with your annual salary and find that amount across the top of the chart.
2. Read down the chart to the number of years you have until retirement.
3. Read across to find your suggested savings rate.

Amount of money you have already saved for retirement

years until you retire	0 no savings	1/2 annual salary	1x annual salary	2x annual salary
35	11%	8%	5%	—
30	14%	11%	8%	2%
25	19%	16%	12%	6%
20	16%	23%	19%	11%
15	39%	34%	30%	21%
10	65%	59%	52%	40%

The numbers in this table are the percent of your current annual salary you should consider saving each year. They are ballpark figures only. For a more complete analysis of your situation, consult a financial planner.

This table assumes: a replacement income of 70% of your preretirement income, with other sources (i.e., Social Security and pension) providing 42% of your preretirement income and your savings making up the remaining 28%; inflation will average 5% a year through retirement; investments will earn 8% a year; pay will keep up with inflation; retirement will last 24 years; investment will grow free of taxes; and earnings compounded annually.

Assumptions:

- Inflation will average 5% a year before and throughout your retirement
- Your investments' annual return will be 8%
- Your salary and income will keep pace with inflation
- Your retirement income must last 24 years, at which point the value of your account is $0
- Your income and earnings are pretax, and your investment grows on a tax-deferred basis
- Social Security and pension income is not included

70% − 38% = 32%

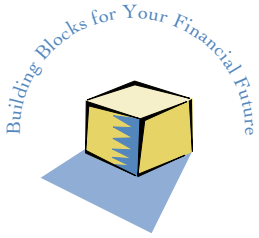
How much of your pay you'll need | *Social Security benefits and pension* | *How much income you'll have to provide*

Remember the 70% of your preretirement income experts say you'll need? This table assumes that Social Security and your pension will provide approximately 38% of your preretirement income. That means you still need to provide 32% of it.*

**Source: Social Security Administration, Income of the Aged Chartbook, 2000 (1998 data). (See pie chart on page 3.)*

The table on page 10 shows that the longer you have until retirement and the more money you have already saved, the less you have to set aside now. If you can't find your own situation on the table, that could mean you're starting late and need to save an even larger percent of your annual salary. If you're starting late, the Plan still offers you one of the best ways to make up for lost time. (See the section on the "catch-up" provision in the Plan's Summary Plan Description in the Appendix section of this guide.)

Perhaps you're already on target to reach your retirement goal. Even if you are, there's no such thing as being too prepared for what may lie ahead.



When you plan to retire makes a big difference

Using the table on page 10, let's compare the retirement pictures of two participants who are **35 years old:**

	Bob	Mary
Current salary	$35,000	**$35,000**
Years to retirement	25	**30**
Current savings	$35,000	**$35,000**
Needs to save this much of current salary each year	8%	**5%**

Bob and Mary earn the same salary. Each has a retirement account equal to one year's pay. But because Mary plans to let her account work **five years longer** than Bob, the table shows she should save about 5% of her pay each year ($1,750) compared with Bob's 8% ($2,800).

This example shows how time can work in your favor. The longer you can leave your money invested, the longer compounding can work for you. And, in the later years of your participation in the Plan, you'll probably have a much larger balance to benefit from the powerful effects of compounding each year.

Want a better estimate?

To estimate more precisely how much money you'll need and how much you should be saving each year, use the worksheets on the following pages.

Worksheet #1:
Part 1 leads you through 10 steps to estimate how much you need for retirement. Part 2 helps you determine what percent of your income you need to save each year to reach your retirement goal.

Worksheet #2:
If you would like to know the maximum you may contribute to the Plan, this worksheet can help you calculate that amount.

If you would like to make your retirement calculations on a personal computer, you may want to use the retirement planning software available from your agency liaison.

RETIREMENT WORKSHEET #1
(PART 1)

How much money do I need for retirement?

The following worksheet will help you determine your retirement needs.

	Example	Yourself
1. Estimated living expenses ***Use 70% of current expenses.***	$ 45,000	
2. Estimated retirement income		
a. Social Security	$ 16,000*	
b. Pension plan	$ 11,000	
c. Other income	$ 7,000	
3. Total estimated income ***(add a,b,c)***	$ 34,000	
4. Retirement shortfall ***Subtract line 3 from line 1.***	$ 11,000	
5. Estimated years of retirement ***According to IRS data, today the average life expectancy for a 65-year-old man is 79, and for a woman it is 84. You may want to assume a life expectancy of 90 to make sure you are covered.***	25	
6. Assumed average rate of return from your investments during retirement ***The average rate of return for the S&P 500 has been approximately 15.68% for the past 20 years. We use 7% to reflect a conservative portfolio.***	7%	
7. Average rate of inflation	5%	
8. Net inflation-adjusted rate of return ***Subtract line 7 from line 6.***	2%	
9. Assumed return factor ***From Table A on page 16.***	19.52	
10. Retirement goal at age 65 ***Multiply line 9 by line 4.***	$214,720	

** Assumes current age of 45.*

To determine your Social Security benefit, call your local Social Security Administration office or 800/772-1213 and ask for "A Personal Earnings and Benefit Statement."

RETIREMENT WORKSHEET #1
(PART 2)

How much money do I need to put aside each year in order to meet my retirement goal?

The following worksheet will help you estimate what you need to save annually to reach your retirement goal.

		Example	Yourself
1.	Your current account balance	$ 25,000	
2.	Assumed average rate of return prior to retirement ***According to Ibbotson Associates, the average rate of return for the S&P 500 has been approximately 15.68% for the past 20 years. We use 7% to reflect the diversification of your portfolio.***	7%	
3.	Assumed average rate of inflation	5%	
4.	Net inflation-adjusted return	2%	
5.	Number of years until retirement ***Example uses current age of 45.***	20	
6.	Assumed return factor from Table B (pg.16) ***Example uses 20 years; 2% net return.***	1.49	
7.	Projected value of current savings ***Multiply Line 1 by Line 6.***	$ 37,250	
8.	Retirement goal ***Insert Line 10 from previous worksheet.***	$ 214,720	
9.	Retirement goal shortfall ***Subtract Line 7 from Line 8.***	$ 177,470	
10.	Assumed discount factor from Table C (pg.17) ***Example uses 20 years; 2% net return.***	.041	
11.	Annual savings required to meet goal* ***Multiply Line 9 by Line 10.***	$ 7,276	

** If you invest $7,276 each year and earn a net return (after inflation) of 2%, you will accumulate $177,470 by retirement. Remember that these dollars are in today's dollars; your annual savings must be adjusted upwards each year with inflation.*

Note: These calculations assume annual compounding and tax deferral. They also assume the pension is adjusted annually for inflation. If a pension is not adjusted for inflation, then your savings goal could be substantially higher. The example shown above is hypothetical.

TABLE A

Example: If your assumed rate of return during retirement is 7% and you expect inflation to average 5%, your net return is 2%. So go to the 2% column; go down to the number of years you expect to be in retirement. If the number of years you expect to be in retirement is 25, the return factor is 19.52. Multiply this by the income stream you need. If you needed $11,000 each year for 25 years, multiply $11,000 times 19.52, which equals $214,720.

Net Return Factors

YEARS	2%	3%	4%	5%	6%	YEARS	2%	3%	4%	5%	6%
1	0.98	0.97	0.96	0.95	0.94	16	13.58	12.56	11.65	10.84	10.11
2	1.94	1.91	1.89	1.86	1.83	17	14.29	13.17	12.17	11.27	10.48
3	2.88	2.83	2.78	2.72	2.67	18	14.99	13.75	12.66	11.69	10.83
4	3.81	3.72	3.63	3.55	3.47	19	15.68	14.32	13.13	12.09	11.16
5	4.71	4.58	4.45	4.33	4.21	20	16.35	14.88	13.59	12.46	11.47
6	5.60	5.42	5.24	5.08	4.92	21	17.01	15.42	14.03	12.82	11.76
7	6.47	6.23	6.00	5.79	5.58	22	17.66	15.94	14.45	13.16	12.04
8	7.33	7.02	6.73	6.46	6.21	23	18.29	16.44	14.86	13.49	12.30
9	8.16	7.79	7.44	7.11	6.80	24	18.91	16.94	15.25	13.80	12.55
10	8.98	8.53	8.11	7.72	7.36	25	19.52	17.41	15.62	14.09	12.78
11	9.79	9.25	8.76	8.31	7.89	26	20.12	17.88	15.98	14.38	13.00
12	10.58	9.95	9.39	8.86	8.38	27	20.71	18.33	16.33	14.64	13.21
13	11.35	10.63	9.99	9.39	8.85	28	21.28	18.76	16.66	14.90	13.41
14	12.11	11.30	10.56	9.90	9.29	29	21.84	19.19	16.98	15.14	13.59
15	12.85	11.94	11.12	10.38	9.71	30	22.40	19.60	17.29	15.37	13.76

TABLE B

Example: If your assumed rate of return prior to retirement is 7% and you expect inflation to average 5%, your net return is 2%. So go to the 2% column, go down to the number of years until retirement. If the number of years until your retirement is 20, the multiplier factor is 1.49. Multiply this by your current savings. If you have saved $25,000 so far, that would be worth $37,250 at retirement.

Assumed Return Factors

YEARS	2%	3%	4%	5%	6%	YEARS	2%	3%	4%	5%	6%
1	1.02	1.03	1.04	1.05	1.06	16	1.37	1.60	1.87	2.18	2.54
2	1.04	1.06	1.08	1.10	1.12	17	1.40	1.65	1.95	2.29	2.69
3	1.06	1.09	1.12	1.16	1.19	18	1.43	1.70	2.03	2.41	2.85
4	1.08	1.13	1.17	1.22	1.26	19	1.46	1.75	2.11	2.53	3.03
5	1.10	1.16	1.22	1.28	1.34	20	1.49	1.81	2.19	2.65	3.21
6	1.13	1.19	1.27	1.34	1.42	22	1.55	1.92	2.37	2.93	3.60
7	1.15	1.23	1.32	1.41	1.50	24	1.61	2.03	2.56	3.23	4.05
8	1.17	1.27	1.37	1.48	1.59	26	1.67	2.16	2.77	3.56	4.55
9	1.20	1.30	1.42	1.55	1.69	28	1.74	2.29	3.00	3.92	5.11
10	1.22	1.34	1.48	1.63	1.79	30	1.81	2.43	3.24	4.32	5.74
11	1.24	1.38	1.54	1.71	1.90	32	1.88	2.58	3.51	4.76	6.45
12	1.27	1.43	1.60	1.80	2.01	34	1.96	2.73	3.79	5.25	7.25
13	1.29	1.47	1.67	1.89	2.13	36	2.04	2.90	4.10	5.79	8.15
14	1.32	1.51	1.73	1.98	2.26	38	2.12	3.07	4.44	6.39	9.15
15	1.35	1.56	1.80	2.08	2.40	40	2.21	3.26	4.80	7.04	10.29

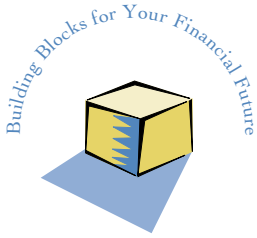
TABLE C

Example: Let's assume you have 20 years until you retire, and you want to save $177,470 in today's dollars when you retire. If you assume a rate of return of 7% and an inflation rate of 5%, then you will use a net inflation-adjusted return figure of 2% (or 7% minus 5%). So if you have 20 years until retirement, look in the 2% column to find the discount factor for 20 years, or .041, and multiply this by $177,470, which is $7,276.

Net Inflation-Adjusted Return Figure

YEARS	2%	3%	4%	5%	6%	YEARS	2%	3%	4%	5%	6%
1	1.000	1.000	1.000	1.000	1.000	16	0.053	0.049	0.045	0.042	0.038
2	0.495	0.492	0.490	0.487	0.485	17	0.049	0.045	0.042	0.038	0.035
3	0.326	0.323	0.320	0.317	0.314	18	0.046	0.042	0.038	0.035	0.032
4	0.242	0.239	0.235	0.232	0.228	19	0.043	0.039	0.036	0.032	0.029
5	0.192	0.188	0.184	0.180	0.177	20	0.041	0.037	0.033	0.030	0.027
6	0.158	0.154	0.150	0.147	0.143	22	0.036	0.032	0.029	0.025	0.023
7	0.134	0.130	0.126	0.122	0.119	24	0.032	0.029	0.025	0.022	0.019
8	0.116	0.112	0.108	0.104	0.101	26	0.029	0.025	0.022	0.019	0.016
9	0.102	0.098	0.094	0.090	0.087	28	0.026	0.023	0.020	0.017	0.014
10	0.091	0.087	0.083	0.079	0.075	30	0.024	0.021	0.017	0.015	0.012
11	0.082	0.078	0.074	0.070	0.066	32	0.022	0.019	0.015	0.013	0.011
12	0.074	0.070	0.066	0.062	0.059	34	0.020	0.017	0.014	0.011	0.009
13	0.068	0.064	0.060	0.056	0.052	36	0.019	0.015	0.012	0.010	0.008
14	0.062	0.058	0.054	0.051	0.047	38	0.017	0.014	0.011	0.009	0.007
15	0.057	0.053	0.049	0.046	0.042	40	0.016	0.013	0.010	0.008	0.006

Note: Tables are end-of-year factors.



Maximum Deferral Rates

Year	Maximum
2002	$11,000
2003	12,000
2004	13,000
2005	14,000
2006	15,000

Please note that, after 2006, the maximum deferral rate will be adjusted for cost-of-living increases in $500 increments.

Special Catch-Up Contributions

Age 50 Catch-Up

Participants age 50 or older are eligible to make an additional contribution to the Plan to help them save for retirement. The participant must maximize the Plan or regulatory limits before making this extra contribution.

Year	Maximum Additional Contribution
2002	$1,000
2003	2,000
2004	3,000
2005	4,000
2006	5,000

Please note that, after 2006, the maximum additional contribution amount will be adjusted for cost-of-living increases in $500 increments. Participants can begin to make age 50 catch-up contributions in the Plan year in which age 50 is attained. Age 50 catch-up contributions are not available in the same year as a "last three years catch-up" contribution.

Last three years Catch-Up

Participants within the last three years of reaching normal retirement age under the Plan are eligible to make an additional contribution to the Plan to help them save for retirement. Beginning in 2002, this catch-up contribution is for a contribution up to twice the maximum deferral rate. You can contact the Deferred Compensation Office or your Agency Liaison.

Calculate the Amount of Deferral Per Pay Period

Worksheet

Line 1 Pay period you want deferrals to start or change . . . . . _____

Line 2 Amount you will have deferred up to, but not including, the pay period listed on Line 1

12/16-31/xx	_____	4/16-30/xx	_____	8/16-31/xx	_____
1/1-15/xx	_____	5/1-15/xx	_____	9/1-15/xx	_____
1/16-31/xx	_____	5/16-31/xx	_____	9/16-30/xx	_____
2/1-15/xx	_____	6/1-15/xx	_____	10/1-15/xx	_____
2/16-28/xx	_____	6/16-30/xx	_____	10/16-31/xx	_____
3/1-15/xx	_____	7/1-15/xx	_____	11/1-15/xx	_____
3/16-31/xx	_____	7/16-31/xx	_____	11/16-30/xx	_____
4/1-15/xx	_____	8/1-15/xx	_____	12/1-15/xx	_____

Total for Line 2. . . . . _____

Line 3 Subtract the amount on Line 2 from the maximum deferral amount on page 18. . . . . _____

Line 4 Number of pay periods remaining in the year, starting with date on Line 1 . . . . . _____

Line 5 Divide the amount on Line 3 by the number on Line 4 (This is your equalized deferral amount per pay for the rest of the year. Enter this amount on the Enrollment Form in Block #6.) . . . . . _____

Pay Schedule and Deduction Frequency

a. **Legislators** are paid monthly, in the month earned, January through December, for a total of 12 pay periods.

b. **If paid monthly**, but you are not a Legislator, the December 1-31 pay period was your first pay period for the current year and November 1-30 will be your last, for a total of 12 pay periods.

c. **If paid semimonthly**, the December 16-31 pay period was your first pay period for the current year and December 1-15 will be your last, for a total of 24 pay periods.

d. **If paid biweekly**, you receive either 24 or 26 paychecks with deductions each year. See your Agency Liaison for assistance in determining how many times a year deductions are taken.

Just ahead in Building Block #3...

Which investments should you choose to help you reach your retirement savings goal? What are the risks and return potential of each kind of investment? Building Block #3 will give you more information to help you answer these questions.